

STATE OF MONTANA

2008 Pay Task Force Report

September 18, 2008

Director Janet Kelly, Montana Department of Administration, appointed a 13-member task force August 15, 2007, to help guide the statewide administration of the broadband pay plan. Director Kelly identified four specific charges. Following are those charges and the 2008 Pay Task Force's recommendations.

Task Force Charge 1

Guide the Department of Administration's efforts in designing and implementing a valid and reliable market analysis process for the 2008 salary survey.

Background: The 2006 Pay Task Force recommended all state agencies 1) move to the broadband pay plan, and 2) rely on the same centrally established market rates. These recommendations became law July 1, 2007. Section 2-18-301 (7)(a), MCA, now requires that executive branch agencies covered under the broadband pay plan use the market rates identified by the Department of Administration (DOA) in its biennial salary survey.

A valid and reliable market analysis process is fundamental to a competitive compensation system. DOA conducted biennial salary surveys for many years, with stakeholders repeatedly raising concerns about the department's surveying practices. Chief among their concerns were:

- the accuracy of job matches,
- the relevance of the labor market,
- the appropriateness of a standardized approach for hard-to-recruit and high demand jobs,
- the practice of "discounting" national survey data, and
- the age of the survey data.

Recommendation: Upon recommendations from the 2008 State Pay Task Force, DOA implemented these changes for the 2008 market analysis:

Involve agency representatives.

DOA enlisted the help of agency human resource representatives and subject-matter experts to 1) make sure state jobs were compared to the right survey jobs, and 2) identify hard-to-fill or high demand occupations.

Use a two-tiered approach to determine the relevant labor market.

DOA used one of two survey approaches, depending on state agencies' experience recruiting and retaining employees in a particular job occupation. The standard approach produced sufficient comparative salary data for about 300 job occupations employed by Montana state government.

DOA customized its survey approach for 19 job occupations identified as hard-to-fill or in high demand. Depending on the recruitment experience, DOA used comparative salary data from narrower job markets (e.g., a specific location or select employers) or broader markets (e.g., nationally) for these 19 occupations.

The task force also approved a process whereby state agencies may request off-cycle customized market analysis if they experience recruitment or retention problems. If the job occupation is employed by more than one state agency, human resource officers from all affected agencies must agree to the customized approach.

Use regional salary for the standard market analysis.

DOA used regional salary data for its standard 2008 market analysis, extracting comparable salary data for occupations employed in Montana and the four surrounding states from Salary.com, the Central States Compensation Association survey, and the U.S. Department of Labor's Occupational Employment Statistics.

Replace the purchased survey from Watson Wyatt Worldwide with Salary.com.

Salary.com is a more comprehensive and up-to-date survey source. Salary.com draws data from hundreds of professionally-conducted surveys, including Watson Wyatt. DOA matched 89 percent of the state's occupations using Salary.com in 2008. In contrast, Watson Wyatt provided matches for only 30 percent of the state's occupations in 2006.

Use the median instead of the average or mean.

DOA reported the median (the middle value when ordered by rank) instead of the average (or mean) salary rate. The median is the industry standard for salary surveys. It compensates for extremes (high or low values) and is less susceptible to skewing than the average or the mean.

Age older survey data.

DOA used the current employment cost index provided through the U.S. Department of Labor to age survey data that was not current.

Task Force Charge 2

Assist the Department of Administration in collecting, recording and reporting state agencies' pay practices and their success addressing recruitment and retention problems.

Background: Montana state government implemented the broadband pay plan to help state agencies stay responsive and competitive recruiting and retaining capable employees. No statewide system exists, however, to determine whether these pay strategies are achieving their desired results.

Recommendation: To establish a performance baseline, the 2008 Pay Task Force recommends DOA implement the following centralized system to compile and monitor statewide recruitment and retention data:

Track the overall turnover rate.

DOA collects data annually about the overall number of employees changing jobs through the State Accounting, Budgeting and Human Resource System (SABHRS). The information is reported in the

state employee profile. DOA can distinguish terminations from transfers, identify turnover rates by employees' years of service, and compare overall turnover rates to trends in national turnover rates.

Create an exit interview system.

A centralized exit interview system can provide reliable data about why employees change jobs and where they go when they leave. DOA will purchase an off-the-shelf electronic survey and, with the help of agency human resource officers, customize the survey. DOA will ask the same set of questions of employees who terminate their employment with state government or transfer from one agency to another. Responses will be anonymous.

Track recruitment efforts.

DOA will implement an online employment application available for all agencies' use in 2008. This online system will allow DOA to track:

- the number of applicants for each recruitment effort,
- the number of times an agency recruits for specific positions,
- the amount of time to hire with and without advertising time,
- where and why applicants are screened out of the process, and
- the demographics of applicants who are screened out.

The task force also recommends that all state agencies eventually be required to use DOA's online employment application.

Task Force Charge 3

Recommend bargaining goals for the 2011 biennium.

Background: These factors weighed into the task force's recommendation that follows:

- **Montana state government's relative labor market standing.** Considering base pay alone, Montana state employees receive an average of 7 to 8 percent less than

their regional private- and public-sector counterparts¹. The State Human Resources Division (SHRD) expects the average pay gap to narrow by 3 to 4 percent when it compares Montana state government's total compensation package (base pay, longevity pay, medical insurance, leave benefits, etc.) to the total compensation packages offered by competing employers. SHRD will publish its total compensation survey in November 2008.

- **Available resources.** It is uncertain how recent changes in the economy will affect long-term sustainable revenues. Budget Director David Ewer met with the task force in January 2008 and cautioned that the upcoming biennium will "feel like belt tightening."
- **Employees' loss of purchasing power.** All state workers have suffered a loss of purchasing power over the past year.
- **Agencies' experiences in the 2008-09 biennium with "bifurcated" pay raises.** The 2006 Pay Task Force recommended across-the-board "bifurcated" pay raises for the 2009 biennium. Specifically, the task force recommended that 80 percent of that raise be distributed across-the-board to all state employees and 20 percent be distributed at the discretion of agencies, subject to collective bargaining. Governor Schweitzer's administration approved the recommendation. The administration subsequently negotiated and successfully enacted a pay bill that distributed 3 percent pay raises across the board and 6/10ths of one percent "discretionary" pay raises.
- **"Occupational pay ranges"** – In previous market analyses, the State Human Resources Division identified standardized pay ranges for all state occupations. SHRD recommended entry pay rates at 20 percent below market and maximum pay rates at 20 percent above market. These ranges are known in Montana state government as "occupational pay ranges;" compensation management professionals refer to them as "competitive pay zones." The 20 percent standard used in Montana state government is atypical. Most employers use variable pay ranges² with narrower pay ranges for lower-skilled occupations and larger pay ranges for higher-skilled occupations.

Recommendation: Considering Montana state government's relative market standing, the revenue forecast, and recent losses in purchasing power, the 2008 Pay Task Force chose to prioritize its recommendations for personal services increases in the 2010-11 biennium:

First priority – across-the-board percentage pay raises. The task force recommends all state employees, regardless of pay level, receive an across-the-board percentage pay raise for each year of the 2010-11 biennium.

Second priority – variable pay ranges. The task force recommends SHRD identify "competitive pay zones" rather than "occupational pay ranges" under the

¹ 2008 Market Analysis, Montana State Human Resources Division. Estimates are based on state employees' pay rates as of October 1, 2008.

² *The WorldatWork Handbook of Compensation, Benefits & Total Rewards*, © 2007, p. 226-236

broadband pay plan. These competitive pay zones would be narrower for occupations classified in the lower pay bands (e.g., a 30 percent spread) and broader for occupations in the higher pay bands (e.g., a 60- or 70-percent spread).

The task force further recommends the administration provide a one-time appropriation in the 2010-11 biennium to raise all employees' pay to the minimum of their occupation's competitive pay zone. This will result in an additional boost in pay for the lowest-paid state workers.

Third priority – “bifurcated” pay raises. The 2008 Pay Task Force believes most state agencies benefited from the ability to target these discretionary pay raises to their individual pay strategies. The task force recommends continuation of a bifurcated approach for discretionary pay when funding allows for total pay raises equal to or above the amount allocated in the 2009 biennium.

Task Force Charge 4

Study the budgetary implications of pay raises³ on agencies and work units with different funding sources, and recommend improvements.

There is no single solution for this challenge. State agencies with programs that do not receive general funds must find ways to cover the cost of employee pay raises whether they're allocated across-the-board or bifurcated, as they were in the 2009 biennium. Directors and administrators of non-general fund agencies and programs must work with the Office of Budget and Program Planning to find case-by-case solutions.

³ Director Kelly's original charge specified “bifurcated” pay raises.

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DIRECTOR'S OFFICE



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November 6, 2006

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Deputy Legislative Auditor
Legislative Audit Division
P.O. Box 201705
Helena, MT 59601

RECEIVED

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LEGISLATIVE AUDIT DIV.

Dear Mr. Pellegrini:

The Department of Administration has reviewed the November 2006 Pay Plan 20: The State's Alternative Pay Plan Performance Audit Report, and the recommendations contained therein. Our response to the recommendations appears below.

We have also attached a Corrective Action Plan per the requirements of Management Memo #2-05-2.

Recommendation #1

We recommend the department re-evaluate its discounting procedure to determine if a better methodology can be used to calculate more realistic market rates, and document and incorporate the results of the analysis into the market analysis process.

Response:

We concur. The department will involve senior management representatives in evaluating its current discounting procedure to determine if a better method exists to calculate market rates. The department will use acceptable industry standards to establish market rates if discounting is used.

Recommendation #2

We recommend the department identify and define the relevant labor market for Montana State Government.

Response:

We concur. The department will include state agencies in its efforts to identify and define the relevant labor market for Montana State Government.

Recommendation #3

We recommend the department develop and document formal guidelines for use by staff in analyzing and establishing occupational markets.

Response:

We concur. The department will formalize existing guides and publish general guidelines for establishing occupational markets.

Recommendation #4

We recommend the department approve market rates for all occupations.

Response:

We concur. The department will approve market rates for all occupations.

Recommendation #5

We recommend the department develop a system for compiling and monitoring recruitment and retention data, and other aspects related to Pay Plan 20.

Response:

We concur. The department will identify relevant metrics to measure the effectiveness of the broadband pay plan in meeting agency needs related to the recruitment and retention of a qualified workforce.

Thank you and your staff for conducting the audit in a professional manner.

Sincerely,



Janet R. Kelly, Director

Attachment

CORRECTIVE ACTION PLAN: PERFORMANCE AUDIT PAY PLAN 20

Department of Administration

November 6, 2006

(1) Agency	(2) Audit Report & Rec #	(3) Does this affect a federal program?	(4) CFDA # (if previous YES)	(5) Management View	(6) CAP - Corrective Action Plan	(7) Person responsible for CAP	(8) Target Date
61010	06P-06 #1 Step 1	No		Concur	Develop task force to research & develop a discounting methodology	Lynn Long	06/30/07
61010	06P-06 #1 Step 2	No		Concur	Publish new methodology	Lynn Long	11/30/07
61010	06P-06 #1 Step 3	No		Concur	Use methodology in 2008 market process	Lynn Long	01/01/08
61010	06P-06 #2 Step 1	No		Concur	Develop task force to define the relevant labor market	Lynn Long	06/30/07
61010	06P-06 #2 Step 2			Concur	Publish labor market and train agencies	Lynn Long	09/01/07-12/30/07
61010	06P-06 #2 Step 3			Concur	Use methodology in 2008 market process	Lynn Long	01/01/08
61010	06P-06 #3	No		Concur	Develop general guidelines for market analysis process	Lynn Long	1/02/08

61010	06P-06 #4 Step 1	No			Concur	Develop policy or administrative rule for approval process with state agencies	Randy Morris/ Lynn Long	7/30/07
61010	06P-06 #4 Step 2	No			Concur	Provide assistance to agencies developing markets	Randy Morris/ Lynn Long	9/30/07- 12/30/07
61010	06P-06 #4 Step 3	No			Concur	Approve all market rates	Randy Morris	03/30/08
61010	06P-06 #5 Step 1	No			Concur	Develop metrics to measure recruitment and retention with state agencies	Lynn Long	09/01/07
61010	06P-06 #5 Step 2	No			Concur	Provide training to agencies in using metrics	Randy Morris/ Lynn Long	10/1/07- 05/01/08
61010	06P-06 #5 Step 3	No			Concur	Agencies report of metrics and SPD monitors data	Randy Morris/ Lynn Long	07/01/08

Report Summary

Introduction

The 1997 Legislature passed House Bill 13 directing the Department of Administration to develop an alternative classification and pay system for state employees. This alternative system is Pay Plan 20.

Background

Pay Plan 20 is referred to as the State of Montana broadband pay plan (broadbanding). Broadbanding is a method of defining occupations and associated pay ranges to enable more flexibility in pay administration. Broadbanding consolidated the state's 25-grade pay matrix from Pay Plan 60 into nine pay bands. Under Pay Plan 20, agency management has flexibility to award pay increases according to their own pay policies and within agency approved operating plans. There are several types of pay adjustments available including market-based, performance-based, results-based, situational pay, strategic pay, and bonus pay. These pay adjustment types are suggested through department guidelines, but not mandated by statute, rule, or policy.

While Pay Plan 20 is called an alternative pay plan, the majority of state agencies are using it to compensate employees. State agency managers consider its flexibility a major benefit. Flexibility in pay administration is a significant change for the State of Montana, and this flexibility has an impact on the compensation philosophy of the state. First, the structure of Pay Plan 20 is based on comparable market salaries, and most agencies have focused on market-based pay. The second part of pay administration in Pay Plan 20 is performance-based pay. The plan provides agency managers flexibility to adjust employee pay based on various needs and accomplishments. The performance element of Pay Plan 20 has not been fully realized.

Market-Analysis

The Department of Administration is responsible for administering Pay Plan 20. One of the main activities conducted under this responsibility is market analysis. Market analysis is the collection and analysis of salary data from other employers for similar jobs. The results of the market analysis are used to establish market pay rates for specific occupations. Overall, the department's market analysis process follows common industry practices used for

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establishing market pay rates. However, we identified several areas where improvements could be made to strengthen the market analysis process.

Discounting Survey Data

In order to approximate the relationship of Montana salaries to national salaries, the department's market analysis process includes an adjustment to national survey data. The department established a 15 percent discount factor using the relationship of Montana to the U.S. median wage.

Discounting survey data is a way to adjust salary figures to more accurately reflect a regional market. However, documentation of the methodology used by the department does not clearly indicate this discount provides the best estimate. The department currently uses a general discount factor of 15 percent for all occupations, but median rankings are also available for individual occupations. If the department used the factor associated with each occupation rather than a general discount factor, it could provide a more practical market rate for each occupation. We believe the department should re-evaluate and document its discounting methodology to better reflect market.

Competitive Labor Market

For compensation, the term market refers to the collective group of employers that compete for employees. Statute, while limited for the alternative pay plan, does indicate pay is to be established based on the relevant labor market. However, Montana's relevant labor market is not defined in rule or policy.

The department developed its process without specifically defining market. Survey data that is readily available, commonly used, and lower in cost to retrieve is used to set market rates. According to division management, more specific survey data is available, which may be more relevant to Montana's competitive labor market. The department should identify this relevant labor market and develop a definition based on current practices and input from state agency personnel.

Report Summary

Criteria to Guide the Process

Department staff regularly make decisions regarding use of salary survey data for calculating market rates. There are no set criteria on when to use survey data and when to eliminate it from calculations. Division personnel set market rates for over 400 occupations, so it is important to have formal guidelines to help ensure consistent decision-making in calculating market rates.

While some judgment needs to be applied, formal guidelines are needed to help ensure consistency in similar situations. In order to facilitate consistency between analysts, as well as facilitate consistency for the same analyst from year to year, the department should develop formal guidelines for decision-making. The department could incorporate these guidelines into current analysis tools for use during group discussions and finalization of markets.

Market Analysis by Other Entities

While most agencies adopt market rates established by the department, there are some occupations in which market rates are established by other state agencies. For example, one agency chooses not to adopt department market rates, and instead establishes its own market rates. There is no policy regarding how market rates should be established for unique occupations, and how the process should be conducted when this occurs.

According to statute, it is the intent of the legislature that compensation plans for state employees be based on an analysis of the labor market as provided by the department. In order to fully implement the intent of the law, the department should be providing guidance and approving the market analysis for all occupations.

The Compensation System is Changing

The department plans to seek legislation to establish Pay Plan 20 as the State of Montana's main compensation system and move all employees to the new pay plan by July 1, 2007. This proposed change in pay plans is a significant change in compensation philosophy and organization culture. In order to make an informed decision, there are some key questions the Legislature should consider during its discussions of Pay Plan 20.

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Pay Plan Variations

Pay plan variations among state agencies have created differences in pay. The department sets a minimum, market, and maximum pay rate for each occupation. However, employee pay is up to the discretion of agency management. This flexibility allows agency managers to use pay to recruit, retain, and reward employees for performance, competencies, and achievements. With no specific guidance, and variations between agencies in available funding, individual employees in Pay Plan 20, hired for the same occupation but in different agencies, can and do get paid varying amounts within occupational pay ranges. Excluding any pay for performance components, the likelihood of pay inequities is greater. These differences in pay result in competition between agencies for employees with the same skills.

Cultural Change

The concept of broadbanding is a major change in compensation philosophy and organizational culture for the State of Montana. Managers have more flexibility in setting pay for individual employees based on market trends and performance. Employees have more flexibility in individual development and career progression. From an organizational standpoint, the change can be characterized as a move from one of entitlement (everyone gets a pay increase) to one based on performance (employees who perform get pay increases).

Matching the market is sometimes referred to as being externally competitive. Aside from comparison to market rates, performance-based pay is a main component of broadbanding. While Montana's state agencies are not required to implement a performance-based pay component as part of Pay Plan 20, some have done so or have plans to implement this component in the future. By granting managers and supervisors more discretion to determine pay increases, pay for performance increases responsibility for supervision and implementation of performance measurement.

Measuring Outcomes

The idea behind creation of the alternative pay plan was to address recruitment and retention issues by providing agency managers with

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tools to better meet individual agency needs. It has been more than five years since state agencies started transitioning to Pay Plan 20. However, there is no information available indicating whether the alternative pay plan is achieving desired outcomes.

Effective implementation should include an ongoing review of the system. There is no requirement to track and monitor recruitment and retention, employee productivity, or other aspects related to outcomes associated with the pay plan. As a result, each agency is left to its own devices on whether or not to monitor operations. In order to determine the impacts of Pay Plan 20, outcomes need to be tracked and monitored.

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors:
James Gillett
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MEMORANDUM

TO: Legislative Audit Committee Members
FROM: Angie Grove, Deputy Legislative Auditor, Performance Audits
CC: Janet R. Kelly, Director, Department of Administration
Paula Stoll, Acting Administrator, State Human Resources Division
Peggy Davis, Chief, Human Resources Policy and Programs Bureau
DATE: September 2008
RE: Performance Audit Follow-up 08SP-19: Pay Plan 20, The State's Alternative Pay Plan, Department of Administration (orig. 06P-06)
ATTACHMENT: Original Performance Audit Summary

INTRODUCTION

In November 2006, we presented our performance audit of Pay Plan 20, the State's Alternative Pay Plan. The audit made five recommendations to the Department of Administration. In November 2007, we began gathering information from the department on progress in implementing the recommendations. This memo summarizes the results of our follow-up work in addition to presenting background information on the program.

Overview

Audit recommendations focused on improving the market analysis process, as well as monitoring achievement of desired outcomes. The Department of Administration commissioned a State Pay Task Force to guide the department's efforts in designing and implementing a valid market analysis process, and to assist the department in reporting on agency recruitment and retention success. The Task Force continues to assist and guide the department's efforts to implement the recommendations resulting from our performance audit. Of the five recommendations in the report, three have been implemented and two are being implemented.

BACKGROUND (from original audit report)

The Montana Legislature adopted the first uniform wage and salary plan for state employees in 1975. The statewide classification system and pay plan was enacted to assure state employees were paid similarly for similar work regardless of employing agency or funding source. The original pay plan took the form of a matrix containing vertical grades and horizontal steps. In 1979, the legislature authorized the Department of Administration (DOA) to develop a pay exception program to "mitigate problems associated with difficult recruitment, retention, transfer, or other exceptional circumstances." In 1991, the

legislature modified the pay matrix, replacing steps with an open-range progression to reflect a more market-based pay philosophy. The 1997 Legislature directed DOA to develop an alternative classification and pay system. This alternative system, called Pay Plan 20, is a market-based and competency-based pay plan, referred to as the broadband pay plan. Broadbanding is a method of defining occupations and associated pay ranges to enable more flexibility in pay administration. Broadbanding consolidated the 25-grade pay matrix into nine bands, each band having a broader minimum to maximum pay range. Broadbanding allows agencies to award pay increases according to their own pay policies and within agency approved operating plans. House Bill 13, the state pay plan bill passed by the 2007 Legislature, adopted Pay Plan 20 as the statewide pay plan.

FOLLOW-UP AUDIT FINDINGS

The performance audit report included five recommendations to the department. Four of the five recommendations focused on improving the market analysis process, and the other recommendation addressed establishment of a system for monitoring desired outcomes. The following summarizes information relating to follow-up audit work and the implementation status of recommendations.

Recommendation #1

We recommend the department re-evaluate its discounting procedure to determine if a better methodology can be used to calculate more practical market rates, and document and incorporate the results of the analysis into the market analysis process.

Implementation Status – Implemented

As mentioned, the department commissioned a State Pay Task Force to assist in decision-making regarding the market analysis process. Task Force membership included management personnel from various agencies, as well as the Governor's Office, and was staffed by DOA personnel. During the original audit, a discounting procedure was used by DOA as part of the market analysis process to adjust national survey data in order to approximate the relationship of Montana salaries to national salaries. The Task Force discussed discounting at several meetings, along with related discussions about sources of salary data and using a regionalized approach. The Task Force recommended DOA not discount any salary data in order to obtain true market-based occupational pay ranges. DOA followed this advice and has stopped discounting salary data.

In addition, DOA obtained opinions from the Task Force and various state agency human resources personnel regarding a change in salary survey data sources. At the time of the original audit, DOA used three sources of salary data to establish market rates: 1) Central States Compensation Association (CSCA), 2) Occupational Employment Statistics (OES), and 3) Watson Wyatt (WW). The OES national data and WW data were discounted. DOA provided information related to other available sources for salary data. One of these sources was Salary.com, a web based company. Salary.com compiles salary data from numerous sources, including WW data, and provides salary data and services to its customers. Salary.com made a presentation to a group of state human resource personnel and provided the group with free access to their database to test its usefulness. Due to better job matches, more sources of data, and up-to-date data, DOA believes Salary.com is a viable tool and provides more appropriate data for obtaining market rates. The Task Force unanimously recommended use of Salary.com data, and DOA replaced WW with Salary.com data. DOA used CSCA data, OES regional data, and Salary.com data to establish the 2008 market rates.

Discussions among the Task Force identified a need for educating state employees about Pay Plan 20 and the establishment of market rates. During these discussions, the Task Force identified a potential for creating unrealistic expectations with the terms used for occupational pay ranges. In the past, DOA established a market rate for each occupation, and then calculated a pay range based on the market.

The range had a minimum, market, and maximum pay rate. Task Force discussions indicated some state employees believe they have an opportunity to achieve the maximum pay rate for an occupation. While Pay Plan 20 allows this flexibility, most state agencies do not have adequate funding to even pay state employees the market rate. As a result, the Task Force recommended elimination of the maximum pay rate. Further discussions regarding occupational pay ranges, including market pay rates being a guideline for agency managers to use in establishing individual pay, resulted in elimination of the minimum pay rate; thus eliminating the range for market pay rates. DOA now reports only the actual market rate for each occupation. Market rates will be updated every two years and the new rates will be reported whether or not the rates increased or decreased from the previous cycle.

Recommendation #2

We recommend the department identify and define the relevant labor market for Montana State Government.

Implementation Status – Implemented

During its deliberations, the Task Force discussed the relevant labor market for Montana state government. DOA proposed a tiered system for development of market rates. After numerous discussions, the Task Force recommended a two-tiered system. The first tier would be the standard market analysis process and would include salary data from the three sources mentioned previously for the states of Montana, Idaho, North Dakota, South Dakota, and Wyoming. In addition, if any salary data is older than one year, DOA personnel will age the data (i.e., make the data more current) by using the most current employment cost index provided by the U.S. Department of Labor. The second tier will be a customized market analysis, requested by a state agency, used for hard-to-fill positions within Montana state government. The Tier II analysis will be used when the standard market rate for an occupation has historically failed to attract an adequate pool of qualified applicants. DOA used the new two-tiered system to establish the 2008 market rates.

Recommendation #3

We recommend the department develop and document formal guidelines for use by staff in analyzing and establishing occupational markets.

Implementation Status – Being Implemented

A “desk reference” is being developed to document procedures used for market analysis and other Pay Plan 20 related processes. According to department personnel, a final draft of the desk reference should be available by the end of September 2008.

Recommendation #4

We recommend the department approve market rates for all occupations.

Implementation Status – Implemented

With the passage of House Bill 13 by the 2007 Legislature, all state agencies are now under Pay Plan 20. Section 2-18-301(8), MCA, now requires DOA, based on its biennial salary survey, to identify current market rates for all occupations. To ensure accurate job matches, DOA will solicit input from subject matter experts and agency human resources representatives before setting occupational pay rates. As mentioned previously, a customized market analysis may be used for hard-to-fill positions, but this must be requested by a state agency, and DOA will only complete the Tier II analysis upon receiving consensus from all state agencies employing the specific occupation in question.

Recommendation #5

We recommend the department establish a system for compiling and monitoring recruitment and retention data, and other aspects related to Pay Plan 20.

Implementation Status – Being Implemented

One of the purposes of the Task Force was to assist DOA in collecting, recording, and reporting state agencies' pay practices and their success addressing recruitment and retention problems. Task Force meetings included discussions about various metrics related to recruitment and retention. Some of the metrics discussed were:

- ▶ Retention – includes overall turnover rate, where employees go when they leave (internal, external, out of state government), why they leave (pay, career, workload, etc.), voluntary versus involuntary turnover, and turnover in relation to number of years of service.
- ▶ Recruitment – includes number of applicants for each recruiting effort, number of recruiting efforts per position, amount of time needed to hire (with and without advertising time), and where and why applicants are screened out of the process.

The Task Force identified numerous areas where data should be collected, and DOA provided recommendations for establishing systems to collect and analyze information related to recruitment and retention. Suggested systems include SABHRS, a centralized exit interview system (SurveyMonkey), and a centralized Internet-based application system. DOA is currently testing the exit interview survey system, and is in the development stage of the application system. The Task Force recommended all state agencies be required to use the online application system to ensure consistency in data collection.

ADDITIONAL INFORMATION

While DOA has, or is, addressing the recommendations in the audit report, there were also several conclusions reached as a result of the original audit work. Two of these conclusions included:

- ▶ Pay plan variations among state agencies have created differences in pay.
- ▶ The concept of broadbanding is a major change in the compensation philosophy and organizational culture for the State of Montana.

During the audit, we noted individual employees in Pay Plan 20, hired for the same occupation but in different agencies, can and do get paid varying amounts within occupational pay ranges. Task Force discussions commonly referred to this phenomenon as pay disparities or inequities. The main reason for differences in pay is availability of funding. For example, if one agency has sufficient funds to pay its employees 100 percent of market, but another agency only has funding to pay 80 percent of market, similar occupations between the two agencies may be paid differently. These situations lead to competition for employees among agencies.

The original audit report also identified some key questions regarding Pay Plan 20 the legislature should consider in order to make an informed decision. Among these were:

- ▶ How important is market-based pay?
- ▶ Can the state afford to pay market-based salaries?
- ▶ Should Montana lead, match, or lag the market?

The 2007 Legislature provided one-time-only funding in House Bill 13 to bring all employees up to a minimum of 80 percent of market. In addition, many agencies implemented agency pay plan rules for paying employees a certain percentage of market. At least one state agency is paying 100 percent of

market, while some other agency pay plan rules use a progression over several years to attain market rates. With the changes in DOA's market analysis process as described above, the overall market rates for 2008 increased on average by about 11 percent. As a result, some agencies may not be able to maintain employee pay at a minimum of 80 percent of market and/or maintain agency pay plan rules related to market percentages. This may cause managers to have to adjust individual agency pay plan policies to address increases in market rates.

During its deliberations, the Task Force discussed whether there should be a minimum pay level for all state employees and what this level should be. Additionally, the Task Force discussed the potential for a long-term goal for the State of Montana to pay all employees at 100 percent of market. Preliminary discussions indicated a need for additional funding in order to obtain a minimum level for all state employees. Due to variations in sources and availability of funding, the Task Force did not identify a single solution for accomplishing this goal.

As stated in the original audit report:

Pay Plan 20 represents a major change in compensation philosophy and organizational culture. From an organizational standpoint, the change can be characterized as a move from one of entitlement (everyone gets any pay increase) to one based on performance (employees who perform get pay increases). In the past, if the legislature approved a pay increase, all employees received the increase, with the exception of employees who were paid at the maximum of their pay grade. With Pay Plan 20, agency managers can approve pay increases for individual employees. This is a significant change in how state employees are used to receiving pay increases, which is a change in the culture of pay administration for the State of Montana.

House Bill 13, passed by the 2007 Legislature, included both an across-the-board pay increase, as well as a discretionary component. Specific language in the bill included:

"Effective October 1, 2007, and October 1, 2008, the appropriation that represents six-tenths of one percent of the salary for each full-time equivalent position must be allocated to each agency to distribute to its employees for reasons including but not limited to market progression, job performance, or employee competencies."

This six-tenths pay component is commonly referred to as the discretionary pay component. Agency managers used numerous methods for distributing discretionary pay including across-the-board, market progression, performance-based, competency-based, differential pay, and various combinations of these methods. According to DOA statistics, approximately 44 percent of state employees received discretionary pay raises in 2007.

Salary Survey Data and 2008 Market Analyses Process

Each biennium State Human Resources Division (SHRD) collects, compiles, and analyzes salary survey data. SHRD uses that data to publish suggested market rates. The results of the analysis, market rates and salary survey descriptions are summarized in a document called a "Market Analysis" for each occupational group in the broadband pay plan.

This document provides an overview of the suggested use of market rates and the process by which they are developed.

Use of suggested market rates

The state uses market rates to gauge the competitiveness of state pay against the relevant labor market. The state can use this information in determining how to best direct funds. Market pay adjustments are dependent on the state's ability to pay, collective bargaining (if applicable), and legislative approval. Montana state government does not guarantee employees are paid at their occupational market rates. Agencies may consider other factors such as current employee salaries, recruitment and retention experience, availability of funding, and unique characteristics of jobs in setting pay rates and pay ranges for individual positions.

Market pricing through compensation surveys is not an exact science, neither is it completely objective. SHRD exercises discretion in choosing which surveys to use for comparison and how to analyze the data. While wage surveys are essential to administration of a broadband compensation system, their inherent imperfections must be considered in applying the results. Given the many judgments necessary to determine a market rate, the Division welcomes questions about market rates and how they are determined, as well as suggestions about how this process might be improved.

REVIEW OF THE MARKET ANALYSIS DOCUMENT AND SALARY SURVEYS

The following is an explanation of a market analysis including descriptions of salary surveys used. Examples come from the market analysis for a Human Resource Specialist. It might be helpful to refer to the Human Resource Specialist market analysis in conjunction with this explanation.

Determining Market Rates

For most positions in state government, the standard job market uses salary survey data for the states of Montana, Wyoming, North Dakota, South Dakota and Idaho available through:

- The Central States Compensation Association (CSCA)
- Occupational Employment Statistics (OES)
- Salary.com

The **CSCA** survey data is obtained from an annual survey conducted by the Central States Compensation Association (CSCA). The CSCA represents 25 state government compensation units that associate to facilitate the exchange of state government salary and benefits information. In its market analysis of state governments, Montana considers salary and benefits data from the contiguous states of Idaho, North Dakota, South Dakota and Wyoming. These states make up the relevant market area because of their proximity, comparable demographics, and primarily rural economies. State government salaries are considered a good data point for market comparisons.

The CSCA survey benchmarks are predominantly journey level professional positions. CSCA does not typically survey lower skill level classes or middle management occupations. State governments do not normally recruit outside their state for lower skill level classes. Middle management jobs are difficult to match because agencies are organized differently from state to state.

The following table shows the CSCA data for the four surrounding states and Montana:

Number	Match Title	Inc	Average	State
3170	HUMAN RESOURCES PROFESSIONAL	19	44,128	ID
3170	Human Resource Officer I (0803)	7	45,273	ND
3170	Personnel Specialist II	3	37,967	SD
3170	Human Resource Professional (HRPR)	19	44,340	WY
	AVERAGE		42,927	
3170	Human Resource Specialist	36	41,891	MT

The **Occupational Employment Statistics (OES)** program conducted by the Bureau of Labor Statistics, U.S. Dept. of Labor, produces employment and wage estimates for over 700 occupations. These estimates are available for the nation, for individual States, for specific industries and for some selected metropolitan areas.

The OES wage survey reports data by mean, median and other percentiles. It does not gather data by levels of work. The OES wage survey is the largest single source survey database available in terms of responding employers and numbers of employees represented. Occupations within OES are classified by the SOC/O*Net classification system. State of Montana occupations also use this occupational classification system. Therefore, it creates a high level of confidence in correct job matching, which is the key to a reliable market analysis

process. Most OES data used by Montana state government is available on the OES web site at: <http://stats.bls.gov/oes/home.htm>.

This table shows OES data for Montana and the four surrounding states for Human Resource Specialist.

SOC CODE	SOC TITLE	TOTAL EMPLOYEES	ANNUAL MEDIAN WAGE	STATE
13-1079	Human resources, training, and labor relations specialists, all other	430	49,400	ID
13-1079	Human resources, training, and labor relations specialists, all other	250	47,040	ND
13-1079	Human resources, training, and labor relations specialists, all other	70	60,990	SD
13-1079	Human resources, training, and labor relations specialists, all other	180	46,500	WY
	AVERAGE		50,983	
13-1079	Human resources, training, and labor relations specialists, all other	280	47,730	MT

Salary.com, which replaced Watson-Wyatt surveys, centralizes third party surveys in an online database that allows SHRD to search over 3,200 benchmark jobs and job descriptions by job family or job level. These represent many of the largest proprietary surveys available covering a scope of 21 industries and company sizes. Data from Salary.com is updated monthly. For more information about Salary.com, go to <http://www.wwdssurveys.com/>

Many Salary.com survey jobs collect and report data by level of work. Levels are usually described in terms of education and experience requirements and supervisory responsibilities. The occupational match from Salary.com for the Human Resource Specialist reported only a single level, which was described as mid-level. The reported education and experience levels are comparable to the level of work described in OES and CSCA. Because of licensing agreements data cannot be shared in its raw form directly from data provided.

Tiers 1 and 2

SHRD uses a two-tiered survey approach to set market rates for state job occupations:

- A. Tier 1 (*standard market analysis*):** SHRD uses the median rate from two or three of the salary survey sources for Montana's regional labor market (Montana, North Dakota, South Dakota, Wyoming and Idaho) depending on availability.
- B. Tier 2 (*customized market analysis*):** At the request and consensus of employing state agencies, SHRD customizes its survey approach for job occupations that are difficult to fill.

Aging

Not all of the survey sources cover the same time period. To bring all of the sources to the same time frame, the data is aged using the most current employment cost index provided by the U.S. Department of Labor. The median base pay rate from OES and CSCA were brought to May of 2008; Salary.com is updated monthly and was not aged.

Determining the Anchor Point:

The market rate is attached to a specific pay band or "anchor level" in an occupation and extended to other levels in the occupation based on a 20% difference between levels. Extending rates to other pay band levels from an anchor level creates a consistent progression in an occupation from one pay band to the next. Occupational Employment Statistics (OES) and Central States Compensation Association salary surveys do not collect data by levels of work. This limits each occupational match in these surveys to one data point, which is matched to the anchor level.

Choosing the broadband level to apply Occupational Employment Statistics survey data can be one of the more difficult decisions in determining a market rate. Job analysts compare the complexity level of the occupational description from each survey source to the factor levels defined under Montana's broadband classification system. Other sources of information include O*Net Job Zone ratings and Bureau of Labor Statistics (BLS) education or training ratings. If Salary.com reports more than one level for an occupation, education and experience levels are used to select the level that is the closest match to the other salary survey source descriptions.

The anchor level decision for the Human Resource Specialist considered the following:

The description from CSCA, which does not list education and experience requirements. The work is described in terms that most resemble broadband classification level 6.

3170 Human Resource Professional: This is journey level professional personnel work. Employees work under general supervision and are free to develop their own work sequences within established guidelines. Work involves analysis of data, identification of facts and recognition of differences in related situations. Contacts with other include advising on work efforts, interpreting guidelines or instructions, or giving guidance to resolve common issues or problems. Employees may write, approve, and distribute vacancy announcements, evaluate whether applicants qualify for positions, advise staff or agencies regarding effective recruitment, review and evaluate position description questionnaires, compile data for reports, design and analyze salary surveys, leads a team conducting employee desk reviews. There is no supervision at this level.

OES does not have a description for this job. Similar occupations have a job zone rating of four and information from the federal Bureau of Labor Statistics indicates that the job zone rating for the Human Resource Specialist occupational category is Job Zone Four. This has similar education and requirements to the Salary.com match and to the broadband classification level 6.

Job Zone

Component Description

Title	Job Zone Four: Considerable Preparation Needed
Overall Experience	A minimum of two to four years of work-related skill, knowledge, or experience is needed for these occupations. For example, an accountant must complete four years of college and work for several years in accounting to be considered qualified.
Job Training	Employees in these occupations usually need several years of work-related experience, on-the-job training, and/or vocational training.
Job Zone Examples	Many of these occupations involve coordinating, supervising, managing, or training others. Examples include accountants, human resource managers, computer programmers, teachers, chemists, and police detectives.
SVP Range	(7.0 to < 8.0)
Education	Most of these occupations require a four - year bachelor's degree, but some do not.

The description from Salary.com that is the closest match to our Human Resource Specialist is:

Human Resources Generalist II (HR09200011)

Administers human resources policies and procedures that cover two or more functional areas. Collects and analyzes HR data, and then makes recommendations to management. Processes paperwork for functional area according to established procedures. May prepare internal employee communications regarding compensation, benefits, or company policies. May require a bachelor's degree in a related area and 2-4 years of experience in the field or in a related area. Familiar with standard concepts, practices, and procedures within a particular field. Relies on limited experience and judgment to plan and accomplish goals. Performs a variety of tasks. Works under general supervision; typically reports to a manager. A certain degree of creativity and latitude is required.

The following table shows the market rate of \$48,300 for a Human Resource Specialist, level 6 extended to other levels in this occupation.

Job Code	Class Series	Pay Band	Market Rate
131775	Human Resource Specialist	05	\$40,250
131776	Human Resource Specialist	06	\$48,300
131777	Human Resource Specialist	07	\$57,960

Developing Pay Zones

Market rates are used as the midpoints to develop pay zones. The width of the zone, sometimes referred to as "range spread," is the distance from the lowest to highest salary in the zone. Subtracting the lowest salary from the highest salary and dividing the result by the lowest salary calculates the percentage of the zone width. Coupled with a 20% midpoint progression, a 50% zone provides an appropriate overlap of pay for pay administration in an occupation.

Using this process, a possible pay zone for Human Resource Specialist would be:

Pay Band	Minimum	Market	Maximum
5	\$32,200	\$40,250	\$48,300
6	\$38,640	\$48,300	\$57,960
7	\$46,368	\$57,960	\$69,552

These zones are subject to agency pay plans.

Occupational Class Standards

The Standard Occupational Classification system (SOC) and the Occupational Information Network (O*Net) are used to classify positions by occupation in the broadband classification system. Classification information in the form of summary descriptions and task lists from O*Net, and hyperlinks to more O*Net data are provided in the market analyses for user convenience at <http://online.onetcenter.org/find/>. They may be used to assist agencies when writing job profiles and determining the correct class series for an occupation. There are some occupations specific to state government that do not have an occupational description in O*Net. In those cases, SHRD has written descriptions of the occupation and published those descriptions at <http://mine.mt.gov/personnel/officers/default.mcp.x>.